

Powerful Pricing Tools

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In last week's Zebra Report I talked about the importance of having a powerful listing presentation that covers five critical areas: *pricing, communication, technology, marketing, and home presentation & photography*. This week I'm going to look at the first of those categories – pricing – to illustrate how **powerful pricing tools** can enhance your listing presentation.

What pricing tools do *you* take to your listing presentation? Most agents take a CMA ... but I actually believe that a CMA doesn't provide the right information for your clients to get a good idea of how to price their home. Successful listing agents understand – and provide to their sellers – data far beyond the CMA, including **absorption rates, appreciation rates, list-to-sales price ratios, listing-to-pending ratios, and assessed value ratios**. All of this data can help you predict a home's sales price. Not familiar with these terms, or why they are important when pricing? Let's take a closer look:

- **Absorption rates:** The absorption rate shows how many months of listing inventory exist in the market, based on how quickly listings are being purchased, or absorbed, by buyers. This is a key concept, and I'm going to talk more about it below.
- **Appreciation rates:** Even if they knew how to calculate appreciation rates, most agents don't like to talk about appreciation with sellers – especially when looking only at the short term. However, according to the National Association of REALTORS® *2010 Profile of Buyers and Sellers*, even with several years of price declines, the typical seller who purchased a home eight years ago has experienced a 24% percent equity gain. Calculate local appreciation rates, and share this information with your clients.
- **List-to-sales price ratios:** You need to know this number! What is the ratio of asking-to-selling prices in your market area? Even more importantly, know your personal list-to-sales price ratio. If it's higher than the market average, it's easy to explain to sellers that you are more skilled than most agents at pricing homes closer to their selling price (which often also equates to a shorter days-on-market time).
- **Listing-to-pending ratios:** Think of listing-to-pending ratios as a measure of demand. The higher the number, the more demand. In order to get a feel for

Absorption Rate Indicator

MLS Area Number _____

Price Range	# Listings	# Pending	Absorption Ratio	Months of Supply*
\$0-100K	222	36	6.17	7
\$100-149K	160	42	3.81	4
\$150-199K	82	44	1.86	2
\$200-249K	67	65	1.03	1
\$250-299K	22	15	1.47	2
\$300-349K	25	8	3.13	3
\$350-399K	18	3	6	6
\$400-449K	11	2	5.5	6
\$450-499K	9	1	9	9
\$500-599K	8	2	4	4
\$600-699K	16	2	8	8
\$700-799K	9	2	4.5	5
\$800-899K	3	0	0	no sales
\$900-999K	2	0	0	no sales
\$1M+		0	0	no sales

* Rounded up to nearest month

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You then round the ratio number up to the nearest "whole" number, to give your clients an idea of how long it will take their home to sell. This rounded number is the absorption rate.

You can use the absorption rate to help manage sellers' expectations for market time. It's also a great tool to help sellers price for the 'now' market. If they need to sell quickly and there is an abundance of homes on the market in their price range, they need to be extremely competitive on price in order to attract a buyer. If they can wait a few months for inventory levels to reduce, they might be able to be a bit more optimistic in terms of price. However, waiting can quickly backfire! If more listings come on the market than there are buyers who are buying, the seller may not be able to meet their timeframe of a quick sale.

When you use absorption ratios, you also need to explain to your seller that there is currently x number of month's supply of homes on the market in their price range ... and the absorption ratio assumes no new inventory coming on during the month. Additional homes coming on to the market in that price range will most definitely impact the ratio, which in turn impacts expected market times.

In order for you to provide the best possible service to your sellers, you absolutely must have a comprehensive listing presentation that includes the data that allows potential sellers a way to truly understand where the market is and how it affects their ability to sell. To provide the level of expertise sellers deserve from you, you must do your research and provide tools that will relate that information in a manner that the seller will understand. Having "props" (charts, graphs and visuals)

allows you to clearly articulate what your research is telling you – and provides a way for sellers to understand what it means to them.

And of course, you know from my previous columns that all of your pricing research should be presented in an extremely professional manner. That means listing appointment materials that feature your personal brand consistently through the presentation, from agenda to research to marketing materials. You should continue to develop the sense of expertise that you're creating through research with every document and detail of your presentation.

Regardless of whether you have the beginnings of a "pricing tool box" or you need to begin building your tools today, you'll have a huge advantage when competing for listings when you can understand and articulate market data in a visually powerful manner.

By Denise Lones CSP, M.I.R.M., CDEI - *The founding partner of The Lones Group, Denise Lones, brings over two decades of experience in the real estate industry. With expertise in strategic marketing, business analysis, branding, new home project planning, product development, and agent/broker training, Denise is nationally recognized as the source for all things "real estate". With a passion for improvement, Denise has helped thousands of real estate agents, brokers, and managers build their business to unprecedented levels of success, while helping them maintain balance and quality of life.*

when buyers are buying, and what price range(s) they are buying in, use listing-to-pending ratios. Tracking this number consistently will give you a strong case when determining the right time to put a home on the market, and what price will likely attract the most potential buyers.

- **Assessed value ratios:** Some clients have a hard time digesting “market” numbers and believe their home’s market value is similar to the values provided by their local assessor. If you measure assessed values of recently sold homes in any given neighborhood to their sales prices, you will discover the ratio between the two – and you can apply that ratio to your client’s home based on their assessed value.
- **“Optimistic”, “realistic” and “now” pricing:** We’ve all had sellers who were overly optimistic about their home’s value, and we’ve all had challenges with the price-reduction discussion. Using a graph that plots “optimistic”, “realistic” and “now” prices helps sellers see where the market truly is, versus where they would like it to be. Have this discussion at your original listing presentation, and the seller will be prepared to lower their price when faced with the reality of few showings and no offers.
- **Price-per-square-foot:** This is a very good tool if you work in an area where there are a lot of comparable listings on the market, and enough sales to give you accurate data. It’s hard to argue price when it’s clear that buyers are buying based on a lower price per-square-foot. Your chart should show the per-square-foot prices of recent sales, active and pending listings, and expired listings.

Remember I mentioned **absorption rates** above? Let’s talk about that a little more. This is by far one of the easiest pieces of research to do, and one of the strongest ways for you to illustrate the need for accurate pricing.

In order to calculate absorption rates, first determine how many active listings there are in a given price range. There’s no magic to the price ranges – you simply determine which ones best represent your marketplace. Next, count the number of pending sales there have been in the past month in each of those price ranges. Then simply divide the number of active listings by the number of pending listings ... and you’ll have the absorption ratio! Here’s what it might look like: